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SUBJECT: WEN JIABAO ON DEVELOPING CHINA'S WESTERN PROVINCES: 10 YEARS
OF SUCCESS, AND FUTURE PLANS FOR EXPANDED REGIONAL TRADE AND
FINANCIAL COOPERATION

REF: CHENGDU 222

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11. (U) Summary and Comment. Over the last 10 years, China's central government has made huge transfer payments and infrastructure investments that have helped 12 western provinces grow faster than its already booming coastal provinces, Premier Wen Jiabao said in an October 16 speech in Chengdu. Beijing plans to increase fiscal transfers and preferential tax and other policies in a new 10-year western China development plan. From 2000-2008, GDP in western China grew annually at 11.7 percent, and fixed capital investment rose annually by 22.9 percent; in the first half of 2009, GDP grew 11.8 percent, and urban fixed asset investment surged by 42.1 percent - all figures higher than the national averages. Much of this investment led to large improvements in western China's road, rail, and airport networks, gas pipelines, and electricity grid.

12. (U) Wen also made proposals to deepen cooperation with the "14 countries bordering western China" in the areas of:

- energy development and conservation, e.g. developing coal-bed gas;
- international transportation arteries such as a new "Eurasian land bridge";
- timely completion of the China-ASEAN free trade zone;
- deepened economic ties with central Asia and Russia through the Shanghai Cooperation Organization (SCO), and with the "Lancang-Mekong River" sub-region of southeast Asia;
- strengthened regional financial cooperation, including: the establishment of a China-ASEAN Investment Cooperation Fund, offering credit to SCO member-countries, and participation in building an East Asia Foreign Currency Reserve.

13. (SBU) Comment: The phenomenal growth of western China, and in

particular that of Chengdu's consular district in southwest China, is an important mega-trend. A second mega-trend apparent in President Wen Jiabao's speech is that China is increasingly emphasizing economic and infrastructure ties with its neighbors to the north, west, and south, not just its traditional partners in northeast Asia and the West. Bilateral trade with Southeast Asia, for example, has multiplied several times over the past decade. We encourage U.S. businesspersons and policy makers, who all too often just visit China's prosperous coastal areas, to come and learn about these growing and important inland markets. End Summary and Comment.

Introduction:

Western Trade Fair Part of Great Western Development Strategy

¶4. (U) In a keynote speech at the opening of the Western Trade Fair October 16 in Chengdu, Premier Wen Jiabao provided a useful overview of the last 10 years of efforts by China's central government to spur growth in its poorer, western provinces in order to close the gap with booming coastal provinces. The Fair, whose opening day was attended by Consul General and Senior Commercial Officer, was started in 2000, and is co-sponsored by the central government and 12 western provinces, autonomous regions and municipalities running from Yunnan Province in the south, to Inner Mongolia in the north. The fair is also part of the central government's Great Western Development Strategy --adopted by the Chinese Government in January 2000 to help under underdeveloped western regions.

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¶5. (U) The following points are all from Premier Wen Jiabao's speech.

Western China's Growth:

Heavy Investment, Large Transfers By Central Government

¶6. (U) In the last 10 years, the Central Government financed more than 3.5 trillion RMB (512.4 billion USD) in transfer payments and special subsidies to support development of western China, and distributed more than 730 billion RMB for infrastructure investment. Since last year, in response to the global financial crisis and an earthquake (which affected the three western provinces of Sichuan, Yunnan, and Shaanxi), over 43 percent of the central government's fiscal stimulus package has been spent in western China. (Note: This year alone, China plans to invest 468.9 billion RMB in projects to develop western China, the National Development and Reform Commission said recently. End Note.)

¶7. (U) January 1, 2010 will mark the 10th anniversary of the Great Western Development Strategy; the Chinese Government is now studying a follow-on policy to promote the region's development over the next 10 years. The Government recently published "An Opinion Regarding Responding to the Global Financial Crisis and Maintaining Western China's Economic Stability and Relatively Rapid Economic Growth." The Government plans a step-by-step increase in the scale of fiscal transfer

payments to western China, and will continue to give it preferential treatment in terms of expanding domestic demand and increasing investment, as well as favorable fiscal policies regarding taxation, finance, land, environment, and manufacturing.

Economic Growth Since 2000:

Numbers Even More Impressive Than National Averages

¶18. (U) From 2000 to 2008, GDP in western China jumped from 1.66 trillion RMB to 5.82 trillion RMB, i.e. an annual average growth rate of 11.7 percent; local tax revenues increased from 112.7 billion RMB to 515.9 billion RMB, an annual increase of 19.6 percent; fixed capital investment increased from 611.1 billion RMB to 3.58 trillion RMB, an annual increase of 22.9 percent - all three annual growth indicators exceeded their national averages.

¶19. (U) From 1999 to 2008, in western China, urban per capita disposable income (chengzhen jumin renjun kezhipei shouru) and farmer per capita net income (nongmin renjun chunshouru) increased, respectively, by 105 and 74 percent. 9.54 million rural residents were lifted out of poverty, leading to a 1.6 percent drop in the poverty incidence rate.

¶10. (U) In the first half of 2009, gross domestic product in the western regions grew by 11.8 percent, urban fixed asset investment (chengzhen guding zichang touzi) grew by 42.1 percent, local fiscal revenues grew by 12.1 percent, and retail sales of consumer goods rose by 19 percent - all of these figures were greater than the national average.

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Greatly Expanded Infrastructure and Private Investment

¶11. (U) During the last 10 years, in western China: roads increased by 888,000 kilometers of which 13,900 were highways; new rail lines in operation increased by more than 8,000 km; there are now more than 79 civilian airports representing 49.4 percent of the national total. Major infrastructure projects completed or being built include the Qinghai-Tibet railroad, the East-West gas pipeline, and the East-West electricity grid connection.

¶12. (U) (In the 30 years) since China's reform and opening policy began, 200,000 state-owned enterprises and private companies have invested 2.2 trillion RMB in western China; in 2008, total foreign investment in western China was 6.62 billion USD, total trade (exports and imports) was 106.8 billion USD.

Four Proposals for Cooperation with Neighboring Countries

¶13. (U) Premier Wen Jiabao also presented a four-point proposal to deepen future cooperation with the "14 countries bordering western China":

1) Energy and Transportation: Western China has strong complementarity with neighboring countries. China welcomes international energy companies to enter western China and help the region improve its energy efficiency, prevent and control the damage from coal mining, and develop coal-bed gas. China will build large international transportation arteries in its southwest and northwest border areas, and expects to reach a consensus with the relevant foreign governments on building a new "Eurasian land bridge." (Comment: Premier Wen Jiabao is likely referring to, for example, building more modern rail and road links from China through Central Asia to Europe (See reftel). End Comment.)

2) Trade and Investment: Western China already has a network of over 100 ports of every kind (air, road, rail, river) near border areas. The Chinese government will support western China's efforts to expand border trade, promote "international cooperation centers," construct development zones in border areas, and strengthen cooperation in the construction of infrastructure. In terms of managing the trade in goods, it will simplify and loosen procedures concerning quotas, permits, and personnel transfers. Western China and its neighbors have rich tourism resources and could work jointly to develop international tourism and a tourism corridor of ancient world civilization.

3) Energy Conservation and Environmental Cooperation: The Chinese Government will support western China's cooperation with neighboring countries on energy conservation, alternative and renewable energy, pollution prevention, ecological restoration, water and soil conservation, and disaster prevention.

4) Regional and International Cooperation: The Chinese Government hopes for:

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-- timely completion of a China-ASEAN free trade zone;

-- further economic and trade cooperation with countries of the Shanghai Cooperation Organization (i.e., China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan);

-- deepened cooperation in the "Lancang-Mekong River" sub-region;

-- success of the ASEAN International Expo to be held in Nanning (Guangxi Province), Western Trade Fair, and the China-South Asia Commercial Forum;

-- strengthened regional financial cooperation, including: the establishment of a China-ASEAN Investment Cooperation Fund, offering credit to SCO member-countries, and participation in building an East Asia Foreign Currency Reserve (dongya quyue waihui chubeiku).

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